

**Manning Municipal Gas Department
Independent Auditor's Report
Basic Financial Statements
Other Information and
Schedule of Findings**

December 31, 2015 and 2014

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**Manning Municipal Gas Department
Officials
December 31, 2015**

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|--------------|---------------------|
| Bob Ehlers | Chairperson | June 2019 |
| Randy Facile | Secretary | June 2020 |
| Dixon Cole | Trustee | June 2016 |
| Alison Ohde-River | Trustee | Resigned March 2015 |
| Karen Reinke | Trustee | June 2018 |
| Aaron Stangl | Trustee | June 2017 |
| Kenneth Spies | Manager | Indefinite |

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

March 24, 2016

Independent Auditor's Report

To the Board of Trustees of the
Manning Municipal Gas Department

Report on the Financial Statements

I have audited the accompanying financial statements of the Manning Municipal Gas Department (a municipal utility), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material error, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Lonnie G. Muxfeldt
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March 24, 2016
Manning Municipal Gas Department
Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manning Municipal Gas Department as of December 31, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 14 to the financial statements, Manning Municipal Gas Department adopted new accounting guidance related to the Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No. 27. My opinion is not modified with respect to this matter.

March 24, 2016
Manning Municipal Gas Department
Independent Auditor's Report

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Manning Municipal Gas Department's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the six years ended December 31, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements.

The other information, Utility's Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 39 through 40 and 42 through 43, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* I have also issued my report dated February 5, 2016, on my consideration of the Manning Municipal Gas Department's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Manning Municipal Gas Department's internal control over financial reporting and compliance.

M. J. J. Associates, CPA, P.C.

Manning Municipal Gas Department Management's Discussion and Analysis

The Manning Municipal Gas Department provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of the Utility is for the year ended December 31, 2015. Management encourages readers to consider this information in conjunction with the Utility's financial statements, which follow.

2015 Financial Highlights

The Utility's revenue activity decreased 31%, or \$471,389 from 2014 to 2015.

The Utility's expenses decreased 22%, or \$289,399 from 2014 to 2015.

The Utility's net position of business type activities increased 0.3%, or \$11,565 from December 31, 2014 to 2015.

Using This Annual Report

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

Financial Statements consist of the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Fund Net Position, and the Statements of Cash Flows. These provide information about the activities of Manning Municipal Gas Department as a whole and present an overall view of the Utility's finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the Utility's budget for the year and the Utility's proportionate share of the net pension liability and related contributions.

Reporting the Utility's Financial Activities

Basic Financial Statements

One of the most important questions asked about the Utility's finances is, "Is the Utility, as a whole, better or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Fund Net Position report information, which helps answer this question. These statements included all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statements of Net Position presents all the Utility's assets and liabilities, with the difference between the two reported as "net position". Over time, increases or decreases in the Utility's net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Fund Net Position presents information showing how the Utility's net position changed during the most recent two years. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will not result in cash flows until future fiscal years.

The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Fund Net Position report the following activity:

Business type activities include the gas utility. These activities are financed primarily by user charges.

Fund Financial Statements

The Utility has one fund:

Proprietary funds account for the Utility's Enterprise Fund. This fund reports services for which the Utility charges customers for the service it provides. Proprietary funds are reported in the same way. All activities are reported in the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Fund Net Position. The Enterprise Fund includes the gas utility, considered to be the major fund of the Utility.

The financial statements required for proprietary funds include the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Fund Net Position as well as the Statements of Cash Flows.

Basic Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for business type activities.

| Net Position at Year-end | | | |
|--|--------------|--------------|--|
| Business Type Activity - Enterprise Fund | | | |
| | Year Ended | | |
| | 12/31/15 | 12/31/14 | |
| Current assets | \$ 2,814,332 | \$ 3,034,548 | |
| Capital assets | 943,416 | 579,633 | |
| Other assets | 500,000 | 500,000 | |
| Total assets | \$ 4,257,748 | \$ 4,114,181 | |
| Long-term liabilities | \$ 126,518 | \$ -0- | |
| Other liabilities | 248,244 | 106,212 | |
| Total liabilities | 374,762 | 106,212 | |
| Net position: | | | |
| Investment in capital assets | \$ 943,416 | \$ 579,633 | |
| Assigned | 408,050 | 457,400 | |
| Unrestricted | 2,507,780 | 2,970,936 | |
| Total net position | \$ 3,859,246 | \$ 4,007,969 | |

Current assets constitute 66% of total assets and exceed current liabilities by eleven to one. Capital assets constitute 22% of total assets and represent the cost of infrastructure, buildings and equipment, construction work-in-process, and is reported net of accumulated depreciation. Other assets constitute 12% of total assets and consist of the long term portion of notes receivable from the Manning Municipal Cable and Television System Utility. Net position of business type activities increased by \$11,565 from 2014.

The Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27 was implemented during the current year. The beginning net position was restated \$160,288 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 and prior to July 1, 2014. The financial statement amounts for fiscal year 2014 net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

The Manning Municipal Gas Department is one of the few governmental entities in the State of Iowa that reports its financial statements on a calendar year rather than a fiscal year basis. Net pension liability, deferred outflows and deferred inflows are not provided or available for December 31st year end entities and, accordingly, are reported by the Utility as of June 30th.

Changes in Net Position
For the Year ended December 31,

Business Type Activity - Enterprise Fund

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| Revenues: | | |
| Charges for services | \$ 1,005,853 | \$ 1,476,761 |
| Interest income | 19,463 | 21,584 |
| Miscellaneous income | 4,851 | 3,211 |
| Total revenues | <u>1,030,167</u> | <u>1,501,556</u> |
| Operating expenses: | | |
| Purchased gas | 476,788 | 778,348 |
| Distribution operations | 171,727 | 149,623 |
| Administrative and general | 298,512 | 288,236 |
| Total operating expenses | <u>947,027</u> | <u>1,216,207</u> |
| Other expenses: | | |
| Community contributions | 71,575 | 91,794 |
| Total expenses | <u>1,018,602</u> | <u>1,308,001</u> |
| Increase in net position | 11,565 | 193,555 |
| Net position, beginning of year (Restated for 2015) | <u>3,847,681</u> | <u>3,814,414</u> |
| Net position, end of year | \$ <u>3,859,246</u> | \$ <u>4,007,969</u> |

Total revenues decreased by \$471,389, or approximately 31% for the year ended December 31, 2015. Residential, commercial and interruptible gas sales all decreased approximately 31% due primarily to less cold than the prior year. Large volume gas sales to a local coop decreased 35% principally due to even less seasonal demand for grain drying services than the prior year.

The gross profit on natural gas sales was 52% for 2015, 47% for 2014, 55% for 2013 and 2012, and 54% for 2011, respectively. Residential and commercial gas margins are relatively higher than for interruptible and large volume customers and constitute 69% and 31%, 68% and 32% of gas sales for the years ended December 31, 2015 and 2014, respectively.

Total expenses decreased by approximately \$289,400, or 22% for the year ended December 31, 2015. Purchased natural gas expense decreased by approximately \$301,500 or 39% from 2014. Distribution expenses increased by approximately \$22,100 or 15%, administrative and general expenses increased by approximately \$10,000, or 4%, and contributions for local economic development decreased by approximately 22%, or \$20,219.

As a result of the above mentioned factors, the Gas Department posted a \$11,565 increase to net position for the year ended December 31, 2015.

Budgetary Highlights

The City of Manning adopts a budget annually as required by Iowa law. The City budget, which is prepared on the cash basis of accounting, includes those funds of the Manning Municipal Gas Department for the period July 1, 2014 to June 30, 2015.

The Utility presents its budgetary information on a cash basis for the period January 1 to December 31, 2015. Disbursements did not exceed the final budgeted amounts.

Future Financial Statement Impact

Natural gas supplies continue to be plentiful, usage steady and prices favorable through 2016 and beyond. 2016 will see the completion of the natural gas line and fiber optic project connecting Puck Enterprises to both the Manning Municipal Gas Department and the Manning Municipal Communication and Telephone System Utility.

Requests for Information

Requests for additional information can be made to the Manning Municipal Gas Department's manager, Ken Spies, 715 Third Street, Manning, Iowa 51455.

Basic Financial Statements

Exhibit A

**Manning Municipal Gas Department
Statements of Net Position
December 31, 2015 and 2014**

ASSETS

| | <u>2015</u> | <u>2014</u> |
|---------------------------------------|---------------------|---------------------|
| Current Assets | | |
| Unrestricted | | |
| Cash | \$ 221,322 | \$ 311,998 |
| Investments | 1,947,117 | 1,936,480 |
| Accounts receivable, net of allowance | 37,895 | 164,572 |
| Other receivable | 525 | 851 |
| Unbilled usage | 101,445 | 99,056 |
| Accrued interest receivable | 11,808 | 12,100 |
| Inventory | 80,700 | 96,066 |
| Prepaid expenses | 5,470 | 6,025 |
| Total unrestricted current assets | <u>2,406,282</u> | <u>2,627,148</u> |
| Restricted | | |
| Customer deposits | 8,050 | 7,400 |
| Investments | 400,000 | 400,000 |
| Total restricted current assets | <u>408,050</u> | <u>407,400</u> |
| Total current assets | 2,814,332 | 3,034,548 |
| Capital Assets | | |
| Land, plants and mains | 1,275,538 | 1,274,369 |
| Warehouse | 71,722 | 71,722 |
| Shop equipment | 143,265 | 111,986 |
| Office equipment and fixtures | 55,454 | 48,030 |
| Office improvements | 68,126 | 68,126 |
| Transportation equipment | 68,408 | 68,408 |
| Border station | 16,232 | 16,232 |
| | <u>1,698,745</u> | <u>1,658,873</u> |
| Less accumulated depreciation | <u>1,127,353</u> | <u>1,079,240</u> |
| | 571,392 | 579,633 |
| Construction work in progress | 372,024 | -0- |
| Net capital assets | <u>943,416</u> | <u>579,633</u> |
| Other Assets | | |
| Note receivable - Telecom Utility | <u>500,000</u> | <u>500,000</u> |
| Total assets | \$ <u>4,257,748</u> | \$ <u>4,114,181</u> |
| Deferred Outflows of Resources | | |
| Pension related deferred outflows | <u>24,510</u> | <u>18,641</u> |

See accompanying notes to financial statements

Exhibit A
Continued

Manning Municipal Gas Department
Statements of Net Position
December 31, 2015 and 2014

LIABILITIES AND NET POSITION

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Current Liabilities | | |
| Payable from unrestricted current assets: | | |
| Accounts payable - trade | \$ 66,576 | \$ 80,921 |
| Accounts payable - construction | 157,022 | -0- |
| Accrued vacation and sick leave payable | 13,427 | 13,943 |
| Sales and use taxes payable | 2,523 | 3,256 |
| Property taxes payable | 646 | 692 |
| Total payables from unrestricted current assets | <u>240,194</u> | <u>98,812</u> |
| Payable from restricted current assets: | | |
| Customer deposits | 8,050 | 7,400 |
| Total current liabilities | <u>248,244</u> | <u>106,212</u> |
| Noncurrent Liabilities | | |
| Net pension liability | 126,518 | -0- |
| Total liabilities | <u>374,762</u> | <u>106,212</u> |
| Deferred Inflows of Resources | | |
| Unavailable revenues: | | |
| Pension related deferred inflows | 48,250 | -0- |
| Net Position | | |
| Investment in capital assets | 943,416 | 579,633 |
| Restricted for: | | |
| Customer deposits | 8,050 | 7,400 |
| Capital improvement fund | 100,000 | 100,000 |
| Depreciation fund | 300,000 | 300,000 |
| Assigned for fire station | -0- | 50,000 |
| Unrestricted | 2,507,780 | 2,970,936 |
| Total net position | <u>3,859,246</u> | <u>4,007,969</u> |
| Total liabilities and net position | <u>\$ 4,234,008</u> | <u>\$ 4,114,181</u> |

See accompanying notes to financial statements

Exhibit B

**Manning Municipal Gas Department
Statements of Revenues, Expenses, and
Changes in Fund Net Position
For the years ended December 31, 2015 and 2014**

| | 2015 | 2014 |
|-------------------------------------|------------|------------|
| Operating Revenues | | |
| Gas sales | | |
| Residential | \$ 477,154 | \$ 701,688 |
| Commercial | 217,111 | 297,575 |
| Interruptible | 135,855 | 202,536 |
| Large volume | 169,079 | 258,371 |
| Total gas sales | 999,199 | 1,460,170 |
| Merchandise sales, net of cost | 2,888 | 8,364 |
| Service calls | 2,590 | 2,985 |
| Other revenue | 1,176 | 5,242 |
| Total | 6,654 | 16,591 |
| Total operating revenue | 1,005,853 | 1,476,761 |
| Operating Expenses | | |
| Purchased gas | 476,788 | 778,348 |
| Distribution expenses | | |
| Management labor | 38,298 | 40,992 |
| Line labor | 94,609 | 91,514 |
| Chemicals | -0- | 2,460 |
| Maintenance materials and supplies | 29,166 | 3,100 |
| Transportation and freight | 4,488 | 6,010 |
| Education | 20 | 137 |
| Miscellaneous | 5,146 | 5,410 |
| Total distribution expenses | 171,727 | 149,623 |
| Administrative and general expenses | | |
| Advertising | 72 | 262 |
| Bad debts | -0- | -0- |
| Depreciation | 48,113 | 44,996 |
| Dues | 11,460 | 7,947 |
| Group insurance | 53,054 | 42,399 |
| Insurance - general | 15,827 | 17,855 |
| Integrity management | 95 | 653 |
| Maintenance - copiers and computers | 3,651 | 3,299 |
| Meeting and travel | -0- | 26 |
| Miscellaneous | 7,626 | 7,133 |
| Manager labor | 41,670 | 37,467 |

Exhibit B
Continued

Manning Municipal Gas Department
Statements of Revenues, Expenses, and
Changes in Fund Net Position
For the years ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---------------------|---------------------|
| Operating Expenses - continued | | |
| Administrative and general expenses - continued | | |
| Office wages | \$ 50,873 | \$ 48,946 |
| Office supplies and maintenance | 1,588 | 3,026 |
| Official publications | 1,008 | 1,155 |
| Payroll taxes | 16,988 | 16,502 |
| Retirement contributions | 9,225 | 18,875 |
| Professional services | 7,484 | 7,362 |
| Real estate taxes | 627 | 707 |
| Rebate program/comfort plus homes | 5,230 | 7,400 |
| Safety | -0- | 54 |
| Trustees | 2,796 | 2,946 |
| Utilities, rent, city assessment | 21,125 | 19,226 |
| Total administrative and general expenses | <u>298,512</u> | <u>288,236</u> |
| Total operating expenses | <u>947,027</u> | <u>1,216,207</u> |
| Operating income (loss) | 58,826 | 260,554 |
| Non-operating Revenues (Expenses) | | |
| Interest income | 19,463 | 21,584 |
| Miscellaneous income | 4,422 | 3,211 |
| Bad debt recovery | 429 | -0- |
| Contribution - Housing Rehab Project | (2,475) | (2,475) |
| Contribution - Economic Development | (18,500) | (38,750) |
| Contribution - Project Trees | (250) | (569) |
| Contribution - Home Fitness Program | (350) | -0- |
| Contribution - Fire Station | (50,000) | (50,000) |
| Net non-operating revenues (expenses) | <u>(47,261)</u> | <u>(66,999)</u> |
| Change in net position | 11,565 | 193,555 |
| Net position, beginning of year, restated 2015 | <u>3,847,681</u> | <u>3,814,414</u> |
| Net position, end of year | \$ <u>3,859,246</u> | \$ <u>4,007,969</u> |

See accompanying notes to financial statements

Exhibit C

**Manning Municipal Gas Department
Statements of Cash Flows
For the years ended December 31, 2015 and 2014**

| | 2015 | | 2014 |
|--|---------------------|----|------------------|
| Cash flows from operating activities: | | | |
| Cash received from customers | \$ 1,127,938 | \$ | 1,453,064 |
| Cash payments for goods and services | (684,074) | | (920,042) |
| Cash payments to employees | (222,061) | | (220,605) |
| Net cash provided by operating activities | <u>221,803</u> | | <u>312,417</u> |
| Cash flows from capital and related financial activities: | | | |
| Non operating income received | 4,851 | | 3,211 |
| Change in customer deposits | 650 | | 600 |
| Acquisition and construction of capital assets | (254,873) | | (46,451) |
| Net cash used for capital and related financing activities | <u>(249,372)</u> | | <u>(42,640)</u> |
| Cash flows from investing activities: | | | |
| Interest received | 19,755 | | 19,062 |
| Community contributions | (71,575) | | (91,794) |
| Note payments received | -0- | | 99,234 |
| Net cash used for or provided by investing activities | <u>(51,820)</u> | | <u>26,502</u> |
| Net increase (decrease) in cash | (79,389) | | 296,279 |
| Cash, Beginning of year | <u>2,655,878</u> | | <u>2,359,599</u> |
| Cash, End of year | \$ <u>2,576,489</u> | \$ | <u>2,655,878</u> |

See accompanying notes to financial statements

Exhibit C
Continued

Manning Municipal Gas Department
Statements of Cash Flows
For the years ended December 31, 2015 and 2014

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Reconciliation of Operating Income to Net | | |
| Cash Provided by Operating Activities: | | |
| Operating Income | \$ 58,826 | \$ 260,554 |
| Adjustments to reconcile operating income | | |
| to net cash provided by operating activities: | | |
| Depreciation | 48,113 | 44,996 |
| Net (increase) decrease in: | | |
| Accounts receivables and unbilled usage | 124,614 | 23,697 |
| Inventories | 15,366 | (10,098) |
| Prepaid expenses | 555 | (1,280) |
| Deferred outflows | (5,869) | -0- |
| Net increase (decrease) in: | | |
| Accounts payable | (14,345) | (3,790) |
| Accrued wages and vacation payable | (516) | (1,686) |
| Sales and use tax payable | (733) | 2 |
| Other accrued expenses | (46) | 22 |
| Net pension liability | (52,412) | -0- |
| Deferred inflows | 48,250 | -0- |
| Net cash provided by operating activities | \$ <u>221,803</u> | \$ <u>312,417</u> |
| Reconciliation of cash and cash equivalents at | | |
| year end to specific assets included on the | | |
| Statements of Net Position | | |
| Current assets: | | |
| Cash | \$ 221,322 | \$ 311,998 |
| Investments | 1,947,117 | 1,936,480 |
| Restricted assets: | | |
| Depreciation reserve | 300,000 | 300,000 |
| Capital improvements | 100,000 | 100,000 |
| Customer deposits | 8,050 | 7,400 |
| Total cash | \$ <u>2,576,489</u> | \$ <u>2,655,878</u> |

Notes to Financial Statements

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014**

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Manning Municipal Gas Department is a component unit of the City of Manning, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board (GASB). The Gas Department is governed by a five-member board of trustees appointed by the City Council. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Manning Municipal Gas Department has no component units which meet the Governmental Accounting Standards Board (GASB) criteria.

The financial statements include only those funds of the Gas Department and are not intended to present all funds of the City of Manning, Iowa.

B. Jointly Governed Organizations

The Utility participates in several jointly governed organizations that provide goods or services to the citizenry of the Utility but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. Utility officials are members of the following boards: Manning Municipal Communication and Television System Utility, Manning Betterment Foundation, and Manning Economic Development Corporation, Templeton Manning Joint Gas Service Utility Board, Aspinwall Manning Joint Gas Service Utility Board, Iowa Municipal Utilities Association, Clayton Energy Buying Group, and American Public Gas Association.

C. Nature of Business

Formed as a Utility in 1961, the Manning Municipal Gas Department distributes natural gas to the residents and businesses of Manning, Iowa. In 1992, the Gas Department expanded distribution to Templeton, Iowa and, in 1997, to Aspinwall, Iowa. The Utility's revenues are dependent upon the economic condition of its residential and commercial customers.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The proprietary fund of the Gas Department applies all applicable Governmental Accounting Standards Board (GASB) pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles, Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility Board distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility Board's principal ongoing operations. The principal operating revenues of the Gas Department are charges to customers for sales and service. Operating expenses for the Gas Utility include the cost of sales and services, administration expenses and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating revenues and expenses.

The Gas Department maintains its accounting records on the basis of cash receipts and disbursements. For financial reporting purposes, accruals are recorded in conformity with U.S. generally accepted accounting principles.

The Statement of Net Position presents the Gas Department's assets and liabilities, with the difference reported as fund net position. Net position is classified as follows:

Investment in capital assets consists of capital assets, net of accumulated depreciation and construction work in process.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the board of trustees intends to use for specific purposes.

Unrestricted - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended December 31, 2015, disbursements did not exceed amounts budgeted.

F. Cash and Cash Equivalents

Cash consists of checking accounts, cash on hand, and savings. Investments consist of certificates of deposit. For purposes on the Statement of Cash Flows, the Gas Utility considers all deposits to be cash equivalents. Investments are stated at cost which approximates market.

G. Accounts Receivable

Accounts receivable are presented at their net realizable values. The allowance for doubtful accounts is \$612 at December 31, 2015 and 2014.

Customer meters are read monthly. Manning customers are billed the 1st of the month and Templeton, Aspinwall and AGP customers are billed on the 15th of each month. Collection procedures are determined by Commerce Commission Rules as follows: normal customers have twenty days to remit payment whereas budget plan customers have thirty days. No surcharges or interest charges are added to delinquencies. Shut off procedures also differ by season: April 1st through October 31st favor the Utility while November 1st through March 31st favor the consumer.

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014**

(1) Summary of Significant Accounting Policies (Continued)

H. Unbilled Usage

The Utility estimates unbilled usage by prorating the total billing based on the number of days still in the accounting period versus the total number of days in the billing period.

I. Inventory

Material and supplies are valued at the lower of cost or market on a per item basis. Gas inventory is valued at the weighted average cost of gas per MMBtu's in storage.

J. Restricted Assets

The Utility includes in restricted assets those amounts received from customers as deposits on their gas accounts. Other restricted assets include amounts set aside as a Depreciation and Capital Improvement Reserve.

K. Capital Assets

Capital assets include property, plant and equipment. Capital assets are stated at cost. Depreciation is computed using straight line methods applied to the estimated useful lives of the various assets. The Utility records a half year's depreciation in both the year of acquisition and retirement and is computed over the following useful lives:

| | |
|-----------------------------------|---------------|
| Plant and mains | 30 - 40 years |
| Office and shop equipment | 5 -10 years |
| Vehicles | 5 years |
| Warehouse and office improvements | 20 years |
| Border station - odorizer | 20 years |

Expenses for maintenance, repairs and minor replacements are charged to operations. Expenses for major repairs and betterments are charged to property, plant and equipment accounts.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies (Continued)

L. Deferred outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

M. Customer Deposits

Meter deposits are collected from new customers prior to connection. Customers in good standing are eligible to receive a deposit refund after one year.

N. Operating Revenues

Revenues are based on billing rates applied to customer usage. Meters are read monthly. Western Consulting Inc, calculates the rate to charge per MCF on a monthly basis.

O. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

P. Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of the issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014

(2) Cash and Investments

The Utility Board's deposits in banks at December 31, 2015 and 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Utility Board is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the need and use of the Utility.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 3, as amended by Statement No 40.

The Utility's cash and investments at December 31, 2015 and 2014 are as follows:

| | <u>Cash</u> | <u>Certificates of Deposit</u> |
|-------------------|-------------------|------------------------------------|
| December 31, 2015 | | |
| Unrestricted | \$ 311,998 | \$ 1,936,480 |
| Restricted | 7,400 | 400,000 |
| | <u>\$ 319,398</u> | <u>\$ 2,336,480</u> |
| December 31, 2014 | | |
| Unrestricted | \$ 277,397 | \$ 1,675,403 |
| Restricted | 6,800 | 400,000 |
| | <u>\$ 284,197</u> | <u>\$ 2,075,403</u> |

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014

(3) Restricted Assets

The Board of Trustees established by resolution, various reserve account funds to accumulate surplus net revenue for the following purposes:

| | <u>2015</u> | <u>2014</u> |
|---|-------------------|-------------------|
| Customer Deposits - Cash | \$ 8,050 | \$ 7,400 |
| Depreciation Reserve - Certificates of Deposit | 300,000 | 300,000 |
| Capital Improvement Reserve - Certificate of Deposit | <u>100,000</u> | <u>100,000</u> |
| | \$ <u>408,050</u> | \$ <u>407,400</u> |

(4) Capital Assets

Capital assets activity for the year ended December 31, 2015 is summarized as follows:

| | <u>Balance 12/31/14</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 12/31/15</u> |
|------------------------------------|-----------------------------|-------------------|------------------|-----------------------------|
| Land | \$ 2,500 | \$ -0- | \$ -0- | \$ 2,500 |
| Plants and mains | 1,271,869 | 1,169 | -0- | 1,273,038 |
| Warehouse | 71,722 | -0- | -0- | 71,722 |
| Shop equipment | 111,986 | 31,279 | -0- | 143,265 |
| Office equipment | 48,030 | 7,424 | -0- | 55,454 |
| Office improvements | 68,126 | -0- | -0- | 68,126 |
| Transportation | 68,408 | -0- | -0- | 68,408 |
| Border station | 16,232 | -0- | -0- | 16,232 |
| | <u>1,658,873</u> | <u>39,872</u> | <u>-0-</u> | <u>1,698,745</u> |
| Less: accumulated depreciation | <u>1,079,240</u> | <u>48,113</u> | <u>-0-</u> | <u>1,127,353</u> |
| | 579,633 | (8,241) | -0- | 571,392 |
| Construction WIP | <u>-0-</u> | <u>372,024</u> | <u>-0-</u> | <u>372,024</u> |
| Capital assets, net | \$ <u>579,633</u> | \$ <u>363,783</u> | \$ <u>-0-</u> | \$ <u>943,416</u> |
| Depreciation charged to operations | | | | \$ <u>48,113</u> |

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014**

(5) Related Party Transactions

| <u>MMCTSU Note</u> | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|
| Note receivable from the Manning Municipal Communications and Television System Utility to be used for broadband communications system. The interest rate is adjusted on July 15 th each year to a rate which is 1% higher than that offered by Templeton Savings Bank on a twelve month certificate of deposit. The interest rate on July 15, 2015 was 1.50%. Interest does not accrue on the unpaid interest balance, there are no required principal payments, and payments of principal and interest may not exceed \$100,000 per year. | \$ <u>500,000</u> | \$ <u>500,000</u> |
| Long-term portion | \$ <u>500,000</u> | \$ <u>500,000</u> |

Municipal Officials

For the years ended December 31, 2015 and 2014, the Manning Municipal Gas Department paid businesses owned by employees or officials of the Gas Utility for the following:

| | <u>2015</u> | <u>2014</u> |
|----------|---------------|---------------|
| Supplies | \$ <u>744</u> | \$ <u>887</u> |

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014

(6) Compensated Absences

Manning Municipal Gas Department employees accrue sick leave benefits at the rate of 88 hours per year, which is equivalent to an average pay period. Sick leave benefits are calculated at their current rate of pay. Unused sick leave benefits will be allowed to accumulate until the employee has accrued a total of 88 hours of sick leave benefits in a twelve-month period. Unused sick leave benefits will be paid to employees, if eligible, on the employee's anniversary date or upon termination of employment. Sick leave payable at December 31, 2015 and 2014 was \$5,101 and \$4,996 respectively.

Employees accrue vacation benefits beginning on the employee's hire date. Vacation time off is paid at the employee's base rate at the time of vacation. In the event that available vacation is not used by the end of the benefit year, employees will forfeit the unused time. Upon termination of employment, employees will be paid for unused vacation time that has been accrued through the last day of employment. Vacation payable at December 31, 2015 and 2014 was \$8,326 and \$8,947, respectively.

(7) Pension and Retirement Benefits

Plan Description - IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014

(7) Pension and Retirement Benefits (Continued)

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014

(7) Pension and Retirement Benefits (Continued)

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's contributions to IPERS for the year ended December 31, 2015 were \$19,256.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At December 31, 2015, the Utility reported a liability of \$126,518 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Utility's collective proportion was 0.003126 percent, which was an increase of 0.000034 percent from its proportion measured as of June 30, 2013.

For the year ended December 31, 2015, the Utility recognized pension expense of \$9,225. At December 31, 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014**

(7) Pension and Retirement Benefits (Continued)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Difference between expected and actual experience | \$ 1,375 | |
| Changes of assumptions | 5,584 | |
| Net difference between projected and actual earnings on pension plan investments | | \$ 48,250 |
| Changes in proportion and differences between Utility contributions and proportionate share of contributions | (1,586) | |
| Utility contributions subsequent to the measurement date | 19,137 | |
| Total | \$ 24,510 | \$ 48,250 |

\$19,137 reported as deferred outflows of resources related to pensions resulting from the Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31, | Total |
|-------------------------------|-------------|
| 2016 | \$ (10,808) |
| 2017 | (10,807) |
| 2018 | (10,808) |
| 2019 | (10,807) |
| 2020 | 353 |
| | \$ (42,877) |

There were no non-employer contributing entities at IPERS.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014

(7) Pension and Retirement Benefits (Continued)

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--|--|
| Rate of inflation (effective June 30, 2014) | 3.00 percent per annum |
| Rates of salary increase (effective June 30, 2010) | 4.00 to 17.00 percent, average, including inflation. Rates vary by membership group. |
| Long-term Investment rate of return (effective June 30, 1996) | 7.50 percent, compounded annually, net of Investment expense, including inflation |

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|-------------------------|---|
| US Equity | 23% | 6.31 |
| Non US Equity | 15 | 6.76 |
| Private Equity | 13 | 11.34 |
| Real Estate | 8 | 3.52 |
| Core Plus Fixed Income | 28 | 2.06 |
| Credit Opportunities | 5 | 3.67 |
| TIPS | 5 | 1.92 |
| Other Real Assets | 2 | 6.27 |
| Cash | 1 | -0.69 |
| Total | <u>100%</u> | |

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014

(7) Pension and Retirement Benefits (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point high (8.5 percent) than the current rate.

| | 1% Decrease (6.5%) | Discount Rate (7.5%) | 1% Increase (8.5%) |
|---|--------------------------|----------------------------|--------------------------|
| Utility's proportionate share of the net pension liability | \$ 239,052 | \$ 126,518 | \$ 31,527 |

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS website at www.ipers.org.

Payable to the pension Plan - At December 31, 2015, the Utility reported payables to the defined benefit pension plan of \$-0- for legally required employer contributions and \$-0- for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014**

(8) Other Postemployment Benefits (OPEB)

Plan Description - The Utility operates a high-deductible health plan which provides medical/prescription drug benefits for employees and retirees and their spouses. Employees that provide proof of insurance elsewhere can elect to opt-out of coverage and receive a payment-in-lieu of insurance. There are 4 active members, -0- retired, and 1 opt-out in the plan. The medical/prescription drug benefits are provided through a high-deductible health plan with Wellmark.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently funds the retiree benefit plan on a pay-as-you-go basis and pays 100% of both single and family coverage. The Utility also contributed 50% of the deductible into participating employees' health savings accounts. Monthly premiums were \$416 for employee only, \$853 for employee/spouse, \$788 for employee/children, and \$1,278 for employee/spouse/children. Those premiums were for \$2,500/\$5,000 deductibles and out-of-pocket maximums of \$2,500/\$5,000. Employees that opt-out receive a \$450 monthly stipend less any coverage retained through the Utility (i.e., disability, life, dental, etc). For the year ended December 31, 2015, the Utility contributed \$40,153 toward the health insurance plan and plan members eligible for benefits contributed \$-0- to the plan. Additionally, the Utility contributed \$7,500 toward Health Savings Accounts and paid \$5,400 in lieu of insurance.

(9) PURCHASE COMMITMENT

In 1993, Manning Municipal Gas Department entered into an agreement with Clayton Energy Corporation of Wahoo, Nebraska whereby Clayton will act as an independent contractor and purchase gas on behalf of the Utility. In September 1995, an addendum was made to this agreement which reiterated the primary term of the agreement to run through October 1996, and extended the secondary terms to run for three years unless terminated one year and ninety days prior to the commencement of any secondary term. The agreement is now open ended and continues to run unless either party gives notification to make a change.

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014**

(10) Long Term Transportation Agreement

The Manning Municipal Gas Department entered into a long term transportation contract with Ag Processing Inc. (AGP) to transport gas from Northern Natural's town border station to AGP's Manning, Iowa plant for .15 cents per MMBtu plus a \$100.00 monthly fee for a period of seven years ending November 1, 1998. This contract now continues on a year to year basis at the same rates.

(11) 28E Agreements

The Board of Trustees approved on September 13, 2007 to enter into an agreement under Iowa Code Chapter 28E to establish an agency to be known as the Public Energy Financing Authority, an Iowa Joint Powers Agency. The purposes of the Agency are to acquire and procure energy resources, or the rights to acquire thereto, including in particular natural gas and electric energy, and to provide for the transportation, transmission, distribution, sale and/or storage thereof in and to each member's service area.

The Gas Utility also has 28E Agreements with the Cities of Templeton and Aspinwall to provide natural gas services, construct and maintain gas distribution lines, and to collect, account for, and remit surcharges to the two cities.

(12) Risk Management

Manning Municipal Gas Department is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

(13) Contingencies and Uncertainties

The Utility provides health care benefits to employees under a self insurance, reinsured plan. The Company's maximum exposure for 2015 under the re-insurance plan is approximately \$14,000.

Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014

(14) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

| | Gas Department |
|---|---------------------|
| Net position December 31, 2014, as previously reported | \$ 4,007,969 |
| Net pension liability at December 31, 2014 | (178,929) |
| Change in outflows or resources related to contributions Made after the June 30, 2013 measurement date | 18,641 |
| Net position December 1, 2014, as restated | \$ <u>3,847,681</u> |

(15) Construction Commitments

In September 2015, the Utility accepted the JCG Land Services Estimate for a major line extension. The project involved a 2.8-mile natural gas and fiber optic line extension to connect Puck Enterprises with the Utility. Winter weather halted completion of the project and, at year end, construction costs to date totaled \$372,024. The construction costs will be recouped from Puck Enterprises over several years.

**Manning Municipal Gas Department
Notes to Financial Statements
December 31, 2015 and 2014**

(16) Subsequent Events

Management has evaluated subsequent events through March 24, 2016, the date on which the financial statements were available to be issued.

Other Information

Manning Municipal Gas Department
Budgetary Comparison Schedule of Revenues, Expenses and
Changes in Fund Net Position - Budget and Actual
(Cash Basis) – Proprietary Funds
For the Year Ended December 31, 2015

| | <u>Accrual</u> <u>Basis</u> | <u>Accruals</u> | <u>Cash</u> <u>Basis</u> |
|-----------------------------------|--------------------------------|-------------------|-----------------------------|
| Receipts: | | | |
| Gas sales | \$ 1,005,853 | \$ 122,085 | \$ 1,127,938 |
| Non-operating | 24,314 | 292 | 24,606 |
| Total receipts | <u>1,030,167</u> | <u>122,377</u> | <u>1,152,544</u> |
| Expenditures: | | | |
| Purchased gas | 476,788 | (10,310) | 466,478 |
| Distribution | 171,727 | (2,936) | 168,791 |
| Administrative | 298,512 | (37,677) | 260,835 |
| Non-operating | 71,575 | -0- | 71,575 |
| Contingency | -0- | -0- | -0- |
| Total expenditures | <u>1,018,602</u> | <u>(50,923)</u> | <u>967,679</u> |
| Change in net position | 11,565 | \$ <u>173,300</u> | \$ <u>184,865</u> |
| * Net position, beginning of year | <u>3,847,681</u> | | |
| Net position, end of year | \$ <u>3,859,246</u> | | |
| * As restated | | | |

See accompanying independent auditor's report.

| Original and Final Budget | | Final to Actual Variance | |
|---------------------------------|------------------|--------------------------------|------------------|
| \$ | 1,650,000 | \$ | (522,062) |
| | -0- | | 24,606 |
| | <u>1,650,000</u> | | <u>(497,456)</u> |
| | 952,000 | | 485,522 |
| | 245,000 | | 76,209 |
| | 383,000 | | 122,165 |
| | -0- | | (71,575) |
| | 70,000 | | 70,000 |
| | <u>1,650,000</u> | | <u>682,321</u> |
| \$ | <u>-0-</u> | \$ | <u>682,321</u> |

Manning Municipal Gas Department
Notes to Other Information -
Budgetary Reporting
December 31, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Utility adopts and submits a budget on the cash basis to the City for approval in the City's required public notice and budget hearing process. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

For the year ended December 31, 2015, the budget was not amended and the disbursements of the Utility did not exceed amounts budgeted.

**Manning Municipal Gas Department
Schedule of the Utility's Proportionate Share
of the Net Pension Liability
Last Year *
Required Supplementary Information**

| | | <u>2015</u> |
|--|----|-------------|
| Utility's proportion of the net pension liability (asset) | | 0.003126% |
| Utility's proportionate share of the net pension liability | \$ | 126,518 |
| Utility's covered-employee payroll | \$ | 217,866 |
| Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll | | 58.07% |
| Plan fiduciary net position as a percentage of the total pension liability | | 87.61% |

- The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Utility will present information for those years for which information is available.

**Manning Municipal Gas Department
Schedule of Utility Contributions
Last Two Years
Required Supplementary Information**

| | <u>2015</u> | <u>2014</u> |
|---|---------------|---------------|
| Statutorily required contribution | \$ 19,137 | \$ 18,641 |
| Contributions in relation to the Statutorily required contribution | <u>19,137</u> | <u>18,641</u> |
| Contribution deficiency (excess) | \$ <u>-0-</u> | \$ <u>-0-</u> |
| Utility's covered-employee payroll | \$ 217,866 | \$ 213,027 |
| Contributions as a percentage of Covered-employee payroll | 8.78% | 8.75% |

See accompanying independent auditor's report.

Manning Municipal Gas Department
Notes to Other Information - Pension Liability
Year ended December 31, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.

- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Prepared in Accordance with
*Government Auditing Standards***

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

March 24, 2016

Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards

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Licensed In:

Iowa
Missouri

To the Board of Trustees of the
Manning Municipal Gas Department

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Manning Municipal Gas Department as of and for the years ended December 31, 2015 and 2014, and the related notes to financial statements, which collectively comprise the Utility's basic financial statements and have issued my report thereon dated February 5, 2016. My report expressed an unmodified opinion on the financial statements which were prepared in conformity with U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Manning Municipal Gas Department's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, I do not express an opinion on the effectiveness of Manning Municipal Gas Department's internal control over financial reporting.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified a certain deficiency in internal control that I consider to be a material weakness.

March 24, 2016
Manning Municipal Gas Department
Report on Internal Control

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Manning Municipal Gas Department's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-15 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Manning Municipal Gas Department's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2016 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Utility. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Manning Municipal Gas Department's Responses to Findings

Manning Municipal Gas Department's responses to findings identified in my audit are described in the accompanying Schedule of Findings. The Gas Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

March 24, 2016
Manning Municipal Gas Department
Report on Internal Control

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and result of that testing and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Manning Municipal Gas Department during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Murphy & Associates, CPA, P.C.

**Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2015**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-15 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation - I realize that a segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will try to use the staff in the most efficient way to achieve maximum internal control possible with the staff available.

Conclusion - Response acknowledged. The Utility should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**Manning Municipal Gas Department
Schedule of Findings
Year Ended December 31, 2015**

Part II: Other Findings Related to Statutory Reporting:

- II-A-15 Certified Budget - Total disbursements during the year ended June 30, 2014, did not exceed the amounts budgeted. The Utility adopts an annual budget on the City of Manning's fiscal year ended June 30th but presents the budgetary comparison on the calendar year.
- II-B-15 Questionable Disbursements - I noted no disbursements for parties, banquets, or other entertainment for employees that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-15 Travel Expense - No disbursements of Municipal Utility's money for travel expenses of spouses of Municipal Utility's officials or employees were noted.
- II-D-15 Business Transactions - Business transactions between the Utility and Utility officials are detailed as follows:

| Name, Title, and Business Connection | Transaction Description | Amount |
|--|----------------------------|--------|
| Ken Spies, Manager, Owner of Spies Fur Co | Supplies | \$ 744 |

The transactions with the manager and the trustee do not appear to represent conflicts of interest since they did not exceed \$2,500 during the year.

- II-E-15 Bond Coverage - Surety bond coverage of Municipal Utility's officials and employees is in accordance with statutory provisions. However, the amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-15 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- II-G-15 Board Minutes - No transactions were found that I believe should have been approved in the Board minutes but were not.

NEWS RELEASE
MANNING MUNICIPAL GAS DEPARTMENT
Manning, Iowa 51455

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the Manning Municipal Gas Department of Manning, Iowa.

Muxfeldt Associates, CPA, P.C, reported that the Utility Board's revenues totaled \$1,030,167 for the year ended December 31, 2015, a 31 percent decrease from 2014. The revenues included \$1,005,853 in natural gas sales, \$19,463 in interest income, and \$4,851 in other revenues.

Expenses for the year totaled \$1,018,602, a 22 percent decrease from 2014. The expenses included \$476,788 for natural gas, \$171,727 for distribution, \$298,512 for administrative and general expenses and \$71,575 for community programs.

The significant decrease in receipts and disbursements is primarily due to natural gas price declines during 2015.

A copy of the audit report is available for review in the office of Manning Municipal Gas Department, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

